United Kingdom

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IN A NUTSHELL

→ House prices continued to grow strongly fuelled by strong demand and limited supply.
→ Demand for city centre properties returned as people returned to office working.
→ Lenders returned to higher LTV lending as pandemic concerns eased.
→ Levels of arrears and possessions fell to new record lows.
→ Labour market conditions tightened significantly and the Bank of England Base rate increased to 0.25%.

MACROECONOMIC OVERVIEW

The economy grew by 7.4% following a decline of 9.3% in 2020. Growth was better than originally expected as the impact of the pandemic was less severe than feared. Quarterly growth rates were uneven due to the imposition of the third lockdown in the first quarter of 2021. GDP fell by 1.2% in the first quarter of the year, but after the lockdown was lifted in March, growth was positive in the following three quarters.

Until September workers were supported by the Coronavirus Job Retention Scheme. This paid towards the wages of people who could not work or whose employers could not afford to pay them, up to a monthly limit of GBP 2,500. This helped support spending, and allowed conditions in the labour market to remain stable. When the scheme ended there were fewer redundancies than feared, and by the end of the year unemployment had fallen from 5.0% in Q4 2020 to 4.1%. However, the labour inactivity rate increased over 2021. In the final quarter of 2021 this was driven by people with long term sickness and 'other' reasons. At the same time the number of job vacancies had begun to increase, and reached a record level by the end of the year. Due to compositional effects, where job losses were concentrated in lower paid sectors, total pay (including bonuses) grew to a rate of 8.8% in the second quarter of 2021, before falling to 4.3% in the final quarter where most of the compositional effects were no longer present. However, this was still above pre-pandemic levels of 2.5% in Q1 2020.

The Consumer Prices Index (CPI) rose by 5.4% in the 12 months to December 2021, up from 0.6% at the end of 2020. This was the highest rate since March 1992 and was driven by higher energy costs, strong demand for goods and services, and supply chain disruption caused by the pandemic. Because of this and the tight labour market conditions, the Bank of England felt it necessary to increase the Base Rate from a historic low of 0.10% to 0.25% in December 2021 in order to bring inflation back towards its 2.0% target.

LOOKING AHEAD

The conflict in Ukraine has added to global price pressures, and has resulted in UK consumer prices increasing by 9.0% in the 12 months to April 2022. It is expected that inflation will increase further this year. Wage growth has also increased to 7.0% in the first quarter of 2022. The Base Rate increased to 1.00% with the potential to rise further in coming months.

These price pressures are putting growing strains on UK households, and is likely to result in households reducing spending or using their savings to support them whilst prices remain elevated. The rise in the Base Rate will put some pressure on mortgage affordability. This may help ease demand in what has been a very buoyant market over the past two years, boosted by the stamp duty holiday and an increased appetite to move as people adjust to new ways of working in a post-pandemic world. However, mortgage interest rates still remain at relatively low levels. Arrears are at record low levels, but could start to increase as lower earning households with little savings struggle with rising costs.

HOUSING MARKETS

House prices increased by 9.3%, compared to just 2.9% in 2020, and 1.0% in 2019. The pandemic has had a significant impact on the housing market. Demand has been boosted by the stamp duty holiday from June 2020 to September 2021, and a surge in demand caused by people re-evaluating their housing needs for a post-pandemic world. Many workers have adopted a more flexible approach to working with more time spent at home. Consequently, the demand for larger properties outside the city centres with outside spaces increased significantly. Demand for smaller properties such as flats in cities has not increased. Furthermore, the supply of properties on the market has been very low, potentially due to sellers being cautious about selling a property during a pandemic. This has added to the upwards pressure on prices. In London house prices increased by an average of just 4.1% compared to the national average of 9.3%, whereas prices in Wales increased the most at 12.8%.

Home ownership increased marginally to 64.9% in 2020/21 from 64.6%, the highest since 2013. Despite some disruption in mortgage markets due to the pandemic, low interest rates improved mortgage affordability for some people resulting in an increase in home ownership rates.

There were 174,880 house building starts and 175,390 completions in 2021. This is up 35% and 19% respectively on starts and completions in 2020. House building activity in 2020 was significantly affected by the coronavirus pandemic.

MORTGAGE MARKETS

Mortgage lending activity was buoyant in 2021. Gross lending was GBP 308.5 bn in the year, up 26% on 2020 during which lending was severely affected by pandemic restrictions. However, it was also up 15% on the GBP 269.0 bn in 2019.

Average mortgage interest rates increased marginally to 2.11% from 2.00% in 2020 but remained below the 2.25% average in 2019. The Base Rate was cut from 0.75% to 0.10% in March 2020 in response to the pandemic. Mortgage interest rates initially increased, especially at higher LTVs (above 75%), as many lenders priced in the increased risk or removed these products from the market. However, in 2021, as conditions normalised, rates begun to fall again and the spread on rates between higher and lower LTV products narrowed considerably. The average rate on a 2 year fixed mortgage at 95% LTV was 2.77% in December 2021 compared to 4.2% in December 2020. For the same product with a 75% LTV the average rate was 1.57% in December 2021 compared to 1.86% in December 2020. The Bank rate remained at 0.1% until December 2021 when it was increased to 0.25%.

A moratorium on re-possessions was introduced in March 2020, meaning no lenders would take an owner-occupied home into possession, but came to an end on 31 May 2021. Combined with support from the Job Retention Scheme the level of arrears and re-possession fell during the pandemic. By the final quarter of 2021 just 0.55% of mortgage balances were in arrears of more than 2.5% or in possession. This is down from 0.59% at the end of Q4 2020 and lower than the 0.57% in Q1 2020 before pandemic related restrictions were put in place.

MORTGAGE FUNDING

By the end of 2021, banks and building societies had drawn GBP 193 bn under the Bank of England's Term Funding Scheme with additional incentives for Small and Medium sized enterprises (TFSME). This scheme was launched in March to help ease pressure on lenders who would otherwise struggle to reduce deposit rates when interest rates are very close to zero and closed to new applicants in October 2021.

Funding from retail deposits grew strongly as spending opportunities were limited due to the third national lockdown whilst incomes continued to be supported by the Jobs Retention scheme. Household savings balances increased GBP 113 bn in the year. This is over double the average of GBP 52.1 in the three years before the pandemic, but still 36% down compared to 2020 during which economic activity was significantly limited due to pandemic related restrictions.

Savings interest rates fell over the year due to the high supply of household deposits and availability of central bank funding. Instant access rates fell to just 0.09% in December 2021 compared to 0.12% in December 2020. Fixed rates fell to 0.36% in December 2021 from 0.42% in December 2020.

The demand for UK wholesale funds continued to be relatively weak in 2021 due to the continuing availability of retail and central bank funding. UK covered bond issuance returned during 2021 with around GBP 3 bn of public issuance and a further GBP 6 bn of bonds issued but retained by their issuer to use as collateral. Maturities of GBP 14 bn meant that there was a further net decrease in bonds outstanding of GBP 5 bn to approximately GBP 81 bn by the end of the year.

GREEN FUNDING

The Green Homes Grant was a GBP 1.5 bn scheme launched in September 2020 designed to help homeowners improve the energy efficiency of their home. However, it closed to new applications in March 2021. The scheme faced a number of administrative challenges making it difficult for tradespeople to take part and homeowners to take part. Around 60,000 homeowners took part in the scheme, just 10% of the 600,000 target

It was announced that from 1 April 2022 the Government will support the installation of low carbon heating sources in England and Wales through the Boiler Upgrade Scheme. This provides discounts on the cost and installation of non-fossil fuel boiler options such as air and ground source heat pumps.

Mortgage lenders continue to bring new green products to the market, offering rate incentives, waiving fees or offering cashback where an energy efficiency improvement to the property is made. Increasingly products are focussed on the buy-to-let sector as Government has indicated that rental properties will likely need to be a minimum of EPC C by 2030.

There were no 'green' bonds issued by UK financial institutions in the year. However, one building society issued a number of 'social' bonds with a purpose of promoting home ownership to customers who may otherwise be unable to purchase a property.

	UK 2020	UK 2021	EU 27 2021
MACROECONOMIC VARIABLES			
Real GDP growth (%) (1)	-9.3	7.4	5.4
Unemployment Rate (LSF), annual average (%) (1)	4.5	4.5	7.0
HICP inflation (%) (1)	0.9	2.6	3.0
HOUSING MARKET			
Owner occupation rate (%) (1)	65.2	65.2	70.0
Gross Fixed Investment in Housing (annual change)(1)	-10.1	16.9	6.6
Building Permits (2015=100) (2)	n/a	n/a	134.0
House Price Index – country (2015=100) (2)	120.1	131.0	145.2*
House Price Index – capital (2015=100) (2)	113.8	118.4	146.1*
Nominal house price growth (%) (2)	5.1	10.2	10.3*
MORTGAGE MARKET			
Outstanding Residential Loans (mn EUR) (2)	1,669,740	1,862,831	6,508,621
Outstanding Residential Loans per capita over 18 (EUR) (2)	31,490	35,012	17,782
Outstanding Residential Loans to disposable income ratio (%) (2)	99.1	79.6	62.8*
Gross residential lending, annual growth (%) (2)	-9.9	30.0	12.2
Typical mortgage rate, annual average (%) (2)	2.0	2.1	2.0

* Please note that this value is the simple average of the available values in 2021.

Sources:
(1) Eurostat
(2) ONS data.
(3) European Mortgage Federation - Hypostat 2022, Statistical Tables.

UNITED KINGDOM FACT TABLE

Which entities can issue mortgage loans in your country?	Monetary and Financial Institutions (MFIs), which includes banks and building societies. Other specialist lenders (non-bank, non-building society UK credit grantors, specialist mortgage lenders, retailers, central and local government, public corporations, insurance companies and pension funds). Other (anything not covered elsewhere).
What is the market share of new mortgage issuances between these entities?	MFIs – 91% Other specialist lenders – 7% Other – 2%
Which entities hold what proportion of outstanding mortgage loans in your country?	MFIs – 89% Other specialist lenders – 7% Other – 4%
What is the typical LTV ratio on residential mortgage loans in your country?	74% (NB, now presented as mean statistic, formerly median. This results in a downward shift in LTV figures, although underlying trends are unchanged).
How is the distinction made between loans for residential and non-residential purposes in your country?	*[We have taken non-residential loans to mean commercial in this context]* The distinction is based on the property being purchased and the purpose it will be used for. A residential loan is used to purchase a property that a person will live in. A commercial loan is one that is used to purchase commercial land or buildings.
What is/are the most common mortgage product(s) in your country?	Initial fixed rate products
What is the typical/average maturity for a mortgage in your country?	25 years
What is/are the most common ways to fund mortgage lending in your country?	Retail deposits and wholesale funding
What is the level of costs associated with house purchase in your country (taxes and other transaction costs)?	Stamp Duty Land Tax – ranges from 0% to 12%, depending on property value Valuation fee – ranges from GBP 150 to GBP 1,500, depending on property value Surveyor's fee – ranges from GBP 250 to GBP 600 Legal fees – ranges from GBP 500 to GBP 1,500 Electronic transfer fee – around GBP 40 to GBP 50
What is the level (if any) of government subsidies for house purchases in your country?	There are no subsidies which apply to house purchase on the whole, there are however some subsidies for specific parts of the market, such as those who live in social housing.